LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6507 **DATE PREPARED:** Jan 23, 2002
BILL NUMBER: HB 1004 **BILL AMENDED:** Jan 22, 2002

SUBJECT: State and Local Fiscal Matters and Appropriations and Tax Restructuring.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
X FEDERAL

Summary of Legislation: (Amended) This bill has the following provisions.

(1) Extends the time for completion of the general reassessment of real property by one year.
(2) Increases the Sales Tax, Admissions Tax, Wagering Tax, Adjusted Gross Income Tax, and Cigarette Tax.
(3) Delays the reduction in the Premium Tax rate.
(4) Imposes a Business Franchise Tax.
(5) Imposes a special assessment on public utility companies.
(6) Eliminates the Gross Income Tax for all entities except public utility companies.
(7) Imposes a special assessment on public utility companies.
(8) Lowers the Property Tax Replacement Credit (PTRC), increases the Homestead Credit and the standard homestead deduction, and establishes a property tax deduction for rental property.
(9) Establishes an Investment Tax Credit against state tax liability and increases the Business Personal Property Tax Credit, the Research Expense Credit, and the Earned Income Tax Credit.
(10) Provides for additional state distributions for deposit in each school general fund and each county family and children's fund.
(11) Terminates and reduces certain local property tax levies.
(12) Provides a property tax deduction for rental property and increases the adjusted gross income deduction for rent paid for a residence.
(13) Makes changes in the Medicaid program and certain administrative fees.
(14) Changes appropriations from the 2001 budget.
(15) Changes the tuition support formula and allows money in certain funds to be used for school operating expenses.
(16) Authorizes a loan from the Rainy Day Fund for the taxing units in Porter County.
(17) Voids the shelter allowance.
(18) Provides a tax credit for relocation of a corporate headquarters to Indiana, authorizes certified technology parks tax increment financing, and exempts research and development equipment from the state Gross Retail Tax for two years.

(19) Repeals obsolete Bank Tax, Production Credit Association Tax, and Savings and Loan Association Tax provisions.

Effective Date: (Amended) Upon passage; January 1, 2002 (retroactive); March 1, 2002 (retroactive); May 1, 2002; June 1, 2002; July 1, 2002; January 1, 2003; July 1, 2003; January 1, 2004.

Explanation of State Expenditures: (Revised)

***Summary* — Tax Restructuring Provisions:** This bill contains several provisions that impact state expenditures and revenues. There is a net reduction in expenditures of $32.8 M in FY 2003. The net increase in estimated expenditures is $458.2 M in FY 2004 and $1,007.8 M in FY 2005. Estimated net revenue increases total $872.4 M in FY 2004, and $1,189.5 M in FY 2005. The net impact of the revenue increases over estimated expenditure is approximately $32.8 M in FY 2003, $414.2 M in FY 2004 and $181.7 M in FY 2005. The fiscal impact of each provision is summarized in the table below.

Net Expenditure and Revenue Impacts -- Tax Restructuring Provisions			
Provision	**FY 2003**	**FY 2004**	**FY 2005**
State Expenditures:			
Net School Levy Reductions *	($22.2 M)	$424.4 M #	$905.2 M
Welfare Levies- 50% F & C/ 100% others		98.9 M	202.7 M
Homestead Credit- Increase to 15%	($15.0 M)	98.5 M	233.4 M
Add. Homestead Credit on Reass. Increase		15.8 M	37.2 M
Inventory Tax Replacement Credit 50%		103.8 M	212.3 M
PTRC- 10%	4.4 M	(283.2 M)	(583.0 M)
Total Change in Expenditures	($32.8 M)	$458.2 M	$1,007.8 M
State Revenues:			
Elimination of Corporate Gross Income Tax		($95.2 M)	($198.8 M)
Elimination of SNIT/Increase Corp AGI		40.0 M	84.4 M
Business Franchise Tax		274.9 M	466.3 M
Research Expense Credit		(24.8 M)	(51.5 M)
Individual AGI - Graduated Rate		109.7 M	294.4 M
Increase Renter's Deduction- Add. $2,000			(40.4 M)
Earned Income Tax Credit- 8% Fed. Credit		(14.8 M)	(36.2 M)
Investment Tax Credit		(28.1 M)	(58.0 M)
$37,500 AV Credit **		(123.5 M)	(88.9) M
Increase Sales Tax - Add 1%		778.3 M	867.5 M
Sales Tax Exemption- R & D equipment		(44.1 M)	(49.3 M)
Total Change in Revenues		$872.4 M	$1,189.5 M
Balance to be Distributed to Reserve Funds		$414.2 M	$181.7 M

* Expenditure estimates are net of the state capturing Excise Taxes, and FIT.

** This credit was enacted in P.L. 291-2001. The net impact of this bill increases the revenue loss from this credit by $27.5 M in FY 2004 but reduces the revenue loss by $9 M in FY 2005. The total impact of the credit is included to reflect the provisions of IC 4-10-20 as added by this bill.

FY 2004 expenditure growth rates reflect the current revenue forecast and not the historical increases in these expenditures. Growth rates could be higher depending on future appropriations.

***<u>Summary</u>* — Budget Deficit Reduction Provisions:** This bill contains several provisions which result in a positive impact on the state General Fund estimated to be $228.5 M in FY 2002, $925.0 M in FY 2003, and $794.5 M in FY 2004.

This is composed of estimated expenditure reductions totaling $154.0 M in FY 2002, $235.4 M in FY 2003, and $28.2 M in FY 2004. Estimated revenue increases total $74.5 M in FY 2002, $689.6 M in FY 2003, and $766.3 M in FY 2004. The fiscal impact of each provision is summarized in the table; additional details of the bill follow the table.

Expenditure and Revenue Impacts to the State General Fund -- Budget Deficit Reduction Provisions				
Provision	**FY02**	**FY03**	**FY04**	**Affected Fund or Agency**
State Expenditures:				
School Funding	--	($115.4 M)	--	School Corporations
Medicaid Spending	--	(32.9 M)	(32.9 M)	Family & Social Services Admin.
Higher Ed Operating Expenses	--	(29.0 M)	--	Institutions of Higher Ed
State Police Funding	--	(62.8 M)	--	Motor Vehicle Highway Account
PTRC Distributions	(154.0 M)	--	--	Local Taxing Units
Tobacco Farmers Provisions	--	4.7 M	4.7 M	Three Dedicated Funds
Total Change in Expenditures	($154.0 M)	($235.4 M)	($28.2 M)	
State Revenues:				
Riverboat Admission Tax Increase	–	$41.7 M	$42.5 M	Department of State Revenue
Riverboat Wagering Tax Increase	--	40.0 M	41.4 M	Department of State Revenue
Transfer from Lottery/Gaming Surplus	--	--	100.0 M	State & Local Capital Projects Acct.
Tobacco Funds	--	--	90.0 M	Tobacco Settlement revenues
Tobacco Funds	50.0 M	90.0 M	--	Investment Trust Portion of Tobacco Master Settlement Agreement Fund
Homeowner’s Property Tax Deduct’n	–	56.0 M	62.6 M	Department of State Revenue
Property Tax Add Back	--	91.7 M	96.2 M	Department of State Revenue
Cigarette Taxes	24.5 M	294.9 M	296.2 M	Department of State Revenue
Sales and Use Tax Distribution	--	38.1 M	--	GF and PTRF
Premium Tax	--	3.9 M	11.7 M	GF
Property Tax Representative Lic. Fee	--	0.04 M	0.04 M	State Tax Board (DLGF)
Continuing Education Fees	--	0.02 M	0.02 M	State Tax Board (DLGF)
IDEM and State Police Fees ****	--	9.6 M	2 M	Dept. of Environmental Management
$2 Bed Tax on Nursing Homes		23.6 M	23.6 M	Health Facilities Council
Total Change in Revenues	$74.5 M	$689.6 M	$766.3 M	

****A portion of IDEM fee increases are deposited into dedicated funds and are not summarized in this table. The bill provides that the State Police may increase fees by rule and, thus, would depend upon administrative action.

Tax Restructuring Provisions:

School General Fund Property Tax Levies: The bill changes the assessed valuation used in the CY 2003school formula. The bill provides for the use of the 2003 assessed valuation in the CY 2003 school formula, under the current reassessment schedule the school formula uses the CY 2002 assessed valuation in the CY 2003 school formula. The change increases property taxes by about $44.3 M for CY 2003. This bill reduces school general fund property tax levies for CY 2004 by $893.1 M and the amount of Motor Vehicle Excise Tax and Financial Institutions Tax (FIT) that is distributed to schools by $113.3 M. The state captures the reduction in Motor Vehicle Excise Tax and FIT due to reductions in the levies as state General Fund revenue. The net impact of the provision is the decrease in the school general fund levies. Currently no school formula exists for CY 2004. Assuming that the CY 2004 formula would continue the CY 2003 trend but provide a 50% reduction in the levy, the change in the state's tuition support responsibility would be decreased $22.15 M for FY 2003 (½ of the CY 2003 amount of -44.3 M) and increased $424.4 M for FY 2004 (½ of the CY 2003 amount of -44.3 M and ½ of the CY 2004 amount of $893.1 M) and $905.2 M in FY 2005.

School Funding Calendar Year Projections		**2003**	**2004**	**2005**
State Support	Bill	3,568,100,000	4,716,950,000	4,845,100,000
	Current	3,612,400,000	3,710,600,000	3,811,500,000
	Difference	(44,300,000)	1,006,350,000	1,033,600,000
Property Taxes	Bill	1,827,800,000	938,600,000	964,000,000
	Current	1,783,500,000	1,831,700,000	1,881,200,000
	Difference	44,300,000	(893,100,000)	(917,200,000)
Motor Vehicle Excise & FIT	Bill	220,400,000	112,450,000	114,700,000
	Current	220,400,000	225,700,000	231,100,000
	Difference		(113,250,000)	(116,400,000)
Total	Bill	5,616,300,000	5,768,000,000	5,923,800,000
	Current	5,616,300,000	5,768,000,000	5,923,800,000
	Difference	0	0	0

Madison Consolidated School: The bill reduces Madison Consolidated School's reduction in previous year revenue caused by having students enrolled in both a private school and their public school. The reduction in revenue under current law is about $877,000, but the increased revenue generated by the additional students was $728,000 for CY 2000. The school would receive about $50,000 in additional tuition support revenue for CY 2002, CY 2003, and CY 2004.

Welfare Levy Reduction: This bill reduces the county property tax levy for the Family and Children's Fund and eliminates the remaining county funding of welfare and children's services and transfers funding responsibility to the state. (HEA 1001-1999 removed the property tax levies for the County Welfare Fund and the County Welfare Administration Fund.)

Beginning in CY 2004, the state would be responsible for 100% of the current county expenditures for welfare and children's services from the Medical Assistance to Wards Fund, the Health Care for the Indigent Fund, and the Children With Special Health Care Needs Fund. The state would also be responsible for 50% of the Family and Children's Fund levies beginning in CY 2004. The projections below are based on estimated growth in child welfare expenditures of about 5% per year reflecting the average annual increase from 1998 to 2001.

The state already contributes to this expenditure in the form of Property Tax Replacement Credit (PTRC) and Homestead Credit. Part of the counties' funding also comes from distributions of Excise Taxes (Motor Vehicle, Commercial Vehicle, Boat, and Aircraft) and Financial Institutions Tax (FIT) revenue. The state will receive Excise Taxes and FIT payments attributable to the welfare funds from counties under this provision. The additional state expenditure estimates for the reduction of the gross welfare levies are presented by fund in the following table.

Estimated Cost for Reduction of Gross Welfare Levies (In $ Millions)				
Fund	**CY 2004**	**CY 2005**	**FY 2004**	**FY 2005**
Family & Children	$ 123.9	$ 130.1	$ 62.0	$ 127.0
HCI	55.0	57.8	27.5	56.4
MAW	11.8	12.4	5.9	12.1
Children w/ Health Needs	7.0	7.3	3.5	7.2
TOTAL	**$197.7**	**$207.6**	**$98.9**	**$202.7**

Homestead Credit Increase: Currently, Homestead Credits are equal to 10% of homeowners' property tax liability. The Homestead Credit percentage is scheduled to change to 4% in CY 2004. This provision would permanently set the Homestead Credit at 15% beginning in CY 2004. In CY 2001, Homestead Credits (at 10%) amounted to $195.5 M.

In addition to the increase in the Homestead Credit rate, the property tax levy reductions found elsewhere in this bill will also have an impact in the cost of providing Homestead Credits. Also, the delay of reassessment will reduce CY 2003 Homestead Credit expense. The following table summarizes all of the changes in this bill that affect the cost of the Homestead Credit. The changes made by the levy reductions were considered first. The resulting Homestead Credit cost serves as the base for the change in the credit percentage.

Summary of Homestead Credit Cost Change					
Cal. Year	**Current %**	**New %**	**Cost Change From Levy Reduction / Reassessment Delay**	**Cost Change From Percentage Change**	**Total Cost Change**
2003	10%	10%	($30.0 M)	$ 0	($30.0 M)
2004	4%	15%	(17.0 M)	243.9 M	226.9 M
2005	4%	15%	(18.0 M)	257.9 M	239.9 M

The following table is a summary of the total Homestead Credit cost changes by state fiscal year.

Summary of Homestead Credit Cost Change	
Fiscal Year	**Total Cost Change**
2003	($15.0 M)
2004	98.5 M
2005	233.4 M

Additional Homestead Credit For Increased Tax Bills: This bill would provide an additional homestead credit to homeowners if their net property tax liability in CY 2004 or CY 2005 is greater than their CY 2003 net liability on the same property. The credit would equal the amount of the increase multiplied by 25% in CY 2004, 18% in CY 2005, and 9% in CY 2006. Based on the levy reductions, Homestead Credit increase, and PTRC changes found elsewhere in this bill, the cost of the additional Homestead Credit under this provision is estimated at **$15.8 M in FY 2004 and $37.2 M in FY 2005**.

Inventory Tax Replacement Credit: Under this provision, the state would provide a 50% credit for property taxes due on inventory assessments. The credit would be passed through county auditors and paid to civil taxing units and schools at the same time that property taxes are distributed.

Estimation Issues: In estimating the impact of this provision, special attention was given to the impending real property reassessment. The final rules on real property assessment and personal property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. The real property reassessment will shift some of the property tax burden from personal property owners to real property owners, while the new personal property assessment rule will moderate that shift to some extent. The total increase in assessed value for 2003 pay 2004 is estimated at about 61.1%, taking both the new real property and personal property rules into account. (It was assumed that the next reassessment will apply to property assessed in 2003 with taxes first paid in 2004 in accordance with the reassessment delay contained in this bill.)

While it is difficult or impossible to estimate, the removal of 50% of the tax burden on inventory will provide an incentive for taxpayers to report more inventory in the state. Taxpayers who currently move inventory out of state may keep more of their inventory in Indiana. Also, the reduction of property tax on inventory may attract new operations that hold inventories. The estimated cost of the Inventory Tax Replacement Credit presented below is based on historical growths and known factors. If, in fact, this provision causes behavioral changes that result in higher levels of inventory, the actual cost of the credit will exceed the estimates below.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled $406.9 M in CY 2000 and $427.6 M in CY 2001. The 2000 pay 2001 inventory AV was $4.70 B and has grown at an average annual rate of 2.7% over the last five years. The statewide net average property tax rate was $8.6955 per $100 AV in CY 2000 and $8.8151 per $100 AV in CY 2001.

Fiscal Impact: Future inventory assessed values were projected based on historical data. Future average net property tax rates were estimated based on historical data, the levy reductions for welfare funds and school general funds found elsewhere in this bill, and on the estimated changes to the total tax base due to the newly adopted real property and personal property assessment regulations. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 1.4% per year in non-reassessment years. An estimate of the future net property tax on inventory was computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates.

The table below shows the estimated net cost to the state to provide the 50% inventory credit beginning in CY 2004.

Estimated State Cost of 50% Inventory Tax Credit			
Calendar Year	**Credit Amount**	**Fiscal Year**	**Credit Amount**
CY 2004	$ 207.7 M	FY 2004	$ 103.8 M
CY 2005	216.9 M	FY 2005	212.3 M

Based on the estimated growth rates of inventory assessed value and net property tax rates, the cost of the credit is estimated to grow at about 4% to 5% per year.

Under current law, the state will allow a credit against state income tax for the property tax paid on the first $37,500 AV of a taxpayer's business personal property in the state. The $37,500 AV credit will be first available based on property tax paid in CY 2003 and can be claimed beginning in 2004 when taxpayers file their 2003 income tax returns. This bill requires that the $37,500 AV credit is to be applied first to depreciable assets and the residual, if any, is to be applied to inventory before the 50% inventory credit is calculated. There are some taxpayers who have total assessments, including inventory, that are at or under $37,500. For these taxpayers it is clear that the income tax credit would reduce the state's liability for the Inventory Tax reduction in this bill. The amount of the reduced state liability for the inventory credit is estimated at $1.5 M to $3.2 M annually under this bill and is reflected in the cost estimates presented in the above table.

Property Tax Replacement Credit Reduction: Under current law, the state pays Property Tax Replacement Credits (PTRC) in the amount of 20% of most school and civil taxing unit operating fund levies. PTRC is currently paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund.

The state's PTRC expense would be reduced to 10% under this bill beginning in CY 2004. The PTRC expense was $886.5 M in CY 2001 and has grown at an average annual rate of 4.3% over the last five years. In addition to the PTRC rate reduction, the property tax levy reductions and the reassessment delay found elsewhere in this bill will also have an impact in the cost of providing Property Tax Replacement Credits. The following table summarizes all of the changes in this bill that affect the cost of PTRC. The changes made by the levy reductions were considered first. The resulting PTRC cost serves as the base for the change in the credit percentage.

Summary of PTRC Cost Change					
Cal. Year	**Current %**	**New %**	**Cost Change From Levy Reduction / Reassessment Delay**	**Cost Change From Percentage Change**	**Total Cost Change**
2003	20%	20%	$ 8.9 M	$ 0	$ 8.9 M
2004	20%	10%	(159.4 M)	(415.8 M)	(575.2 M)
2005	20%	10%	(163.7 M)	(427.0 M)	(590.7 M)

The following table is a summary of the total Homestead Credit cost changes by state fiscal year.

Summary of PTRC Cost Change	
Fiscal Year	**Total Cost Change**
2003	$ 4.4 M
2004	(283.2 M)
2005	(583.0 M)

Earned Income Tax Credit Refunds: The refundable portion of the earned income tax credit (EITC) qualifies as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program. Based on simulations using 1999 tax return data, EITC refunds for those eligible under current law total an estimated $13.8 M. The simulations also suggest that refunds under the bill would total about 30% of total credits. Thus, the refundable EITC would increase by about $2 M to $2.5 M.

Budget Deficit Reduction Provisions:

Homeowner's Property Tax Deduction/Property Tax Add back: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs due to the temporary suspension of the homeowner's property tax deduction and temporary re-institution of the property tax add back. These expenses presumably can be absorbed given the DOR's existing budget and resources.

School Funding: The bill reduces the tuition support local schools receive from the state for the last six months of CY 2002 and the first six months of CY 2003. The amount of the reduction each year is the CY 2002 assessed valuation divided by 100 times the lesser of $0.0328 or ½ of the CY 2002 capital projects fund rate. The reduction would be about $57.7 M per six-month period, or $115.4 M for FY 2003.

Medicaid Program: The bill provides for specific changes to the Medicaid program, including: (1) eliminating chiropractic services for children under: (a) Medicaid; and (b) the Children's Health Insurance Program (CHIP); (2) allowing the Office of Medicaid Policy and Planning (OMPP) to limit: (a) chiropractic services for adult Medicaid recipients; and (b) the amount spent on dental services for Medicaid recipients;

(3) authorizing OMPP to: (a) place a lien on a Medicaid recipient's real property if the office determines that the recipient will not return to live on the property; and (b) enforce the lien if the property is sold or upon the death of the recipient; (4) permitting OMPP to recover from a deceased Medicaid recipient nonprobate assets in which the recipient has an interest at death but that do not pass through the probate estate; (5) authorizing OMPP to require a Medicaid recipient to select only one pharmacy; (6) imposing a $2 fee until August 1, 2004, on health facilities on a per bed per day basis; (7) requiring OMPP to apply for a waiver to: (a) include the aged, blind, and disabled in the Medicaid managed care program; and (b) make certain changes to the state Medicaid plan (the bill excludes aged, blind, and disabled recipients in certain locations from mandatory participation in the Risk-Based Managed Care program); (8) changing eligibility requirements for CHIP; and (9) eliminating continuous eligibility for children in the Medicaid program. The quantifiable impacts to the state from these changes are summarized in the following table.

Impact of Medicaid Changes on General Fund	**Total**	**State**	**Federal**
Expenditures ($M):			
Elimination of Chiropractic Services	(1.6)	(0.6)	(1.0)
Limit Adult Dental Services	(26.3)	(10.0)	(16.3)
Pharmacy “Lock-in”	(35.5)	(13.5)	(22.0)
$2 Bed Tax Impact on State Veterans’ Home		0.2	
Elimination of “Continuous Eligibility”	(21.1)	(8.0)	(13.1)
Obtain Lien Authority	(2.6)	(1.0)	(1.6)
Limit Asset Shelter-Funeral/Burial Trusts	Indet Decr	Indet Decr	Indet Decr
Broaden Definition of Estate	Indet Decr	Indet Decr	Indet Decr
Revenues ($M):			
$2 Bed Tax on Nursing Facilities	62.1	23.6	38.5
Total Impact on General Fund	149.2	**56.5**	92.5

Operating Expenses for Higher Education: The bill also requires a reduction of $29 M in FY 2003 appropriations for operating expenses for higher education. The bill specifies the reduction shall be in the proportion of the operating appropriations of each campus divided by the total operating appropriations for all university campuses. The bill would allow universities to defray the operating appropriation reductions with funds appropriated to Higher Education Technology from the Build Indiana Fund. The amount available may not exceed $29 M.

Expenditures from the Motor Vehicle Highway Account: The bill changes the funding sources for the State Police. Currently, the State Police are funded from the State General Fund, the Motor Vehicle Highway Account (MVHA), and the Motor Carrier Regulation Fund. The bill funds the State Police from the MVHA and the Motor Carrier Regulation Fund. This will reduce State General Fund expenditures by an estimated $62,845,398 for FY 2003.

The MVHA also distributes funds to the Department of Transportation and local units of governments based on a formula. The additional MVHA funds used to support the State Police would otherwise have been distributed with 53%, or approximately $33,302,762, going to the Department of Transportation, and 47%, or approximately 29,532,638, going to local units of government.

[Note: Due to a problem with the language of the bill as currently drafted, the following estimate of distributions from the MVHA is provided for informational purposes in order to reflect the intent of the bill.]

The bill also contains provisions that shift funding of the Public Mass Transportation Fund, the Commuter Rail Service Fund, and the Industrial Rail Service Fund from distributions of Sales Tax collections to appropriations made from the MVHA. The bill links these MVHA appropriations to a percentage of Sales Tax collections so that they will continue to receive the same dollar amount from the MVHA as they would have absent this bill, or $38.1 M in FY 2003. These appropriations from the MVHA described above will reduce revenues that would have otherwise been distributed to the Indiana Department of Transportation (InDOT) by $38.1 M.

PTRC Distributions: The state currently makes six Property Tax Replacement Credit distributions to county treasurers each calendar year from the Property Tax Replacement Fund (PTRF). Under HEA 1001 (2001), the May 2001 distribution was delayed until July 2001. After 2001, the original payment schedule is to be resumed. This means that the last FY 2001 payment was delayed until FY 2002 thereby creating five payments in FY 2001 and seven payments in FY 2002. This bill would require that the alternative schedule is to be used each year. The continued delay of the May payment until July would reduce the number of payments in FY 2002 from seven to six and reduce state expenditures from the PTRF by about $154 M in FY 2002.

Headquarters Relocation Tax Credit: Under this bill, the Department of State Revenue (DOR) would be required to calculate the credit allowed and determine if the expenditure made by the taxpayer was the result of relocation of a corporate headquarters. The DOR would be required to consider whether the expenses made by a taxpayer would have occurred regardless if the taxpayer's business headquarters had relocated or not.

Additionally, tax forms, instructions, and computer programs will need to be revised in order to incorporate the new credit. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Certified Technology Parks: The bill requires the Indiana Department of Commerce (IDOC) to certify technology parks proposed by local redevelopment commissions. <u>However, the bill also limits to three the number of technology parks that the Department may certify</u>. Thus, the IDOC should be able to meet these demands given its current budget and resources. The December 3, 2001, state staffing table indicates that the IDOC has 18 vacant positions.

The bill permits a local unit to apply to the IDOC for certification of territory under the jurisdiction of its redevelopment commission as a certified technology park. The bill allows the IDOC to designate a certified technology park if it determines that the application demonstrates a firm commitment from at least one high technology business creating a significant number of jobs in the park and satisfies at least one of several additional criteria, including: (1) demonstrating significant financial and other support from a higher education institution or private research institute; (2) demonstrating significant commitment from such institutions for commercialization of research produced in the park; (3) existence or proposed development of a business incubator in the park; or (4) assurance that the primary use of the park will be for high technology activity or a business incubator. The bill provides that the local unit's legislative body and redevelopment commission may enter into an agreement with the IDOC establishing the terms and conditions governing the certified technology park. The bill also requires that the IDOC market a certified technology park and permits the IDOC and a redevelopment commission to contract with each other or any third party for such marketing services.

The bill also requires the Department of State Revenue (DOR) to determine the base gross retail and income tax base period amounts for a certified technology park. The base gross retail period amount is the aggregate amount of state gross retail and use taxes remitted by businesses operating in the area encompassed by the technology park during the full fiscal year preceding the establishment of the technology park. The income tax base period amount is the amount of income taxes (state Adjusted Gross Income Tax, and local option income taxes (CAGIT, COIT, and/or CEDIT)) paid by employees employed in the area encompassing the technology park for the fiscal year preceding establishment of the park. Every October, the DOR is required to calculate the incremental income and sales tax revenues for each technology park for the preceding state fiscal year.

Lastly, the bill requires the State Treasurer to establish an Incremental Tax Financing Fund for each certified technology park. Each year, incremental income and sales tax revenue generated in a technology park must be deposited in its respective fund up to $5 M. Each month, money in a technology park's Incremental Tax Financing Fund is distributed to the redevelopment commission operating the park for deposit in its Certified Technology Park fund.

Explanation of State Revenues: (Revised)

Tax Restructuring Provisions:

Corporate Taxes: This bill eliminates the Gross Income Tax, except for utilities, and the Supplemental Net Income Tax and establishes a Corporate Adjusted Gross Income Tax at a rate of 8.5% applied to apportioned Indiana AGI.

This bill eliminates the Indiana Corporate Gross Income Tax, IC 6-2.1, as of December 31, 2003 for all business except utilities. Taxpayers filing on a calendar year basis will end their year and pay the final payment on April 15, 2004. Fiscal year Corporate Gross Income Tax filers will also end their year on December 31, 2003, and make a payment for the shortened tax year on April 15, 2004. They may then begin a new shortened year in 2004 to re-establish their fiscal year for tax purposes.

Background: Currently the Corporate Gross Income Tax applies to regular corporations who must compute their gross tax liability and their adjusted gross tax liability and pay the greater of the two. A corporation must then subtract that liability from apportioned Indiana Adjusted Gross Income (AGI) and pay Supplemental Net Income Tax (SNIT) at a rate of 4.5% on that tax base. The effective tax rate for a taxpayer paying Adjusted Gross Income Tax and Supplemental Net Income Tax is 7.747%.

Methodology: The impact of eliminating the Gross Income Tax is estimated by calculating Indiana Corporate AGI from Supplemental Net Income Tax payments. By applying the effective rate of 7.747% to the tax base and subtracting total corporate tax receipts for a given year, the effect of the Gross Income Tax on Indiana's corporate income tax revenue is isolated. The estimate of revenue lost in FY 2004, one-half the annual total for that year, is $95.2 M and $198.8 M in FY 2005.

Increasing the tax rate from an effective rate of 7.747% to 8.5% on apportioned Indiana AGI is effective for taxable years beginning after December 31, 2003. Therefore, it would take effect mid-way through state FY 2004. If corporations adjusted tax payments immediately, the impact is estimated to be an additional $40 M in FY 2004. It is likely that taxpayers will not adjust on time and that most taxpayers will not remit the full amount for the higher rate until filing after the end of their fiscal year. In that case most or all of the $40 M will be shifted into FY 2005. Adjusted Gross Income Tax revenue collections would increase by an additional $84.4 M in FY 2005.

Business Franchise Tax: This bill also imposes a Business Franchise Tax measured by net worth on all legal entities doing business in Indiana. The term "legal entities" for tax purposes excludes sole proprietorships. Utilities are exempt from this tax. The tax is imposed at a rate of 0.3% on net worth apportioned to Indiana. There is a minimum tax of $50 and a maximum tax of $250,000 per business entity. Members of a consolidated group for income tax purposes may not file for Franchise Tax on a consolidated basis. A taxpayer with ownership interest in another Indiana business may take a deduction equal to the amount of net worth invested in the other Indiana business, provided the taxpayer's ownership interest constitutes 20% of the total ownership of the business entity.

Methodology: The revenue from a Business Franchise Tax in Indiana was estimated based on the relationship between net worth and both employment [EMP] and gross state product [GSP]. Data from four states (Alabama, Mississippi, North Carolina, and Tennessee) which currently have a franchise tax was utilized. A pooled, cross-sectional, time series ordinary least squares regression model describes the relationship between net worth and GSP and EMP. The model yielded an estimate of total net worth apportioned to Indiana which when multiplied by the 0.3% rate gave a projected revenue estimate for an uncapped franchise tax. An estimate of the effect of imposing a cap per entity on Indiana's Franchise Tax was constructed through analysis of Indiana business income tax return data. This methodology yields a forecast of $458.1 M for CY 2004, which is estimated to grow at the same rate as other business income, 3% per year.

Taxpayers are to remit this tax during the fourth month after their tax year begins. Approximately 60% of corporate tax payers file on a calendar year basis. Therefore, it is estimated that approximately $274.9 M will be remitted in FY 2004 and $466.3 M in FY 2005.

Research Expense Credit: This bill eliminates the apportionment factor for the Research Expense Credit and increases the credit from 5% to 10% for tax years beginning January 1, 2004. This bill also extends the current credit rate and structure until December 31, 2003. It is currently set to expire December 31, 2002. It is estimated that these changes will result in a revenue loss ranging from $12.7 M to $24.8 M in FY 2004 (due to changes in estimated quarterly payments) and $26.2 M to $51.5 M in FY 2005.

Over the past four years, the current Research Expense Credit has ranged from $9.2 M in FY 1996 to $24.2 M in FY 1999. It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability.

Apportionment Provision: This modification would mean that the credit is based on the taxpayer's Indiana qualified research expenses, rather than the lesser of its Indiana qualified research expenses or its apportioned research expenses for the tax year beginning January 1, 2004. Currently, only businesses that do not have income apportioned to the state for a taxable year may calculate their credit based on only Indiana research expenses.

This change would lower the tax liability for multi-state, Indiana-domiciled companies that conduct a significant proportion of their research in Indiana, compared to the research conducted through their non-Indiana operations. Elimination of the apportionment factor will allow all companies to compute their tax credit based on the amount of research actually conducted in the state. It is unknown how many Indiana businesses would be affected by this change.

Rate Change: The bill also increases the percentage of credit which may be taken for research and development activities from 5% to 10%.

Elimination of Expiration Date: This bill also eliminates the December 31, 2003, expiration date for the current credit and effectively makes this a permanent credit available to taxpayers.

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides $100,000 for each $1 M in new research expenses. Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

Research expense tax credit affects revenue collections deposited in the General Fund.

Graduated Individual AGI Tax Rate Structure: Beginning in tax year 2004, the bill replaces the current state AGI tax rate equal to 3.4% on all taxable income with the graduated tax rate structure specified in the table below.

Annual Taxable Income	**AGI Tax Rate**
$0 to $20,000	3.4%
Above $20,000 to $70,000	3.8%
Above $70,000	4.2%

The rate change alone is estimated to increase individual Adjusted Gross Income Tax revenue by 7.14%. The estimated increase is the average change in tax liability observed in simulations conducted with data from individual income tax records from 1996 to1999. As a result, the graduated tax rate structure is expected to increase revenue by approximately $109.6 M in FY 2004 and $294.4 M in FY 2005. These totals are based on the updated FY 2003 individual Adjusted Gross Income Tax forecast of $3,857.0 M, and estimates for FY 2004 and FY 2005 totaling $3,988.1 M and $4,123.7 M, respectively. The FY 2004 and FY 2005 estimates assume annual revenue growth of 3.4% (equal to the forecast revenue growth for FY 2003). The FY 2004 total also assumes that the tax rate change will impact monthly withholding and quarterly estimated tax payments during the second half of the fiscal year. Some employers and tax payers may not make these adjustments on time to accurately reflect the tax change beginning January 1, 2004.

Increase in Renter's Deduction: The bill increases the renter's deduction from $2,000 to $4,000 beginning in tax year 2004. This change is estimated to reduce individual income tax revenue by approximately $40.4 M beginning in FY 2005. Since the number of taxpayer's claiming the deduction and the average deduction claimed increase somewhat on an annual basis, the revenue loss from this change will likely increase in subsequent years.

Under current law, a taxpayer may deduct from his or her state taxable income an amount equal to the total rent paid during a tax year up to $2,000. The rent deducted must be paid on the taxpayer's principal place of residence. In 1999, 637,500 taxpayers deducted rent totaling approximately $1,187.9 M under the renter's deduction. From 1989 to 1998 the number of taxpayers claiming the deduction increased by about 1.33% annually, and the average amount deducted increased by about 0.57% per year. Based on these trends, the current $2,000 renter's deduction is estimated to total approximately $1,305.5 M in tax year 2004. In addition, the 33% increase in the maximum allowable deduction in 1999 (from $1,500 to $2,000) resulted in a 28.5% increase in the average renter's deduction in 1999. Based on this relationship, the increase in the maximum allowable deduction from $2,000 to $4000 is estimated to increase the total cost of the renter's deduction by an estimated $40.4 M in FY 2005. This estimate also assumes an average tax rate of 3.64% which was derived based on the simulations of the tax rate change.

Expansion of Earned Income Tax Credit: The bill eliminates the current earned income tax credit (EITC) and establishes a credit equal to 8% of the federal Earned Income Credit beginning in tax year 2004. This change is estimated to increase the cost of the EITC by approximately $14.8 M in FY 2004 and $36.2 M in FY 2005.

Under current law, a taxpayer may claim the EITC if: (1) the taxpayer has at least one qualifying child; (2) the taxpayer's income from all sources does not exceed $12,000; and (3) at least 80% of the taxpayer's Indiana total income is earned income. The amount of this refundable credit is equal to:

($12,000 - the taxpayer's Indiana total income) x (the AGI tax rate of 3.4%).

The federal Earned Income Credit is also based on a taxpayer's income, however, unlike the current EITC the federal credit: (1) is granted to certain taxpayers without children; (2) varies depending upon family size; and (3) in 2001, increases with income starting at incomes of $1 until the credit begins to be phased out at income equal to $5,950 for taxpayers with no children and income equal to $13,100 for taxpayers with children. Based on the <u>2001 Federal Earned Income Credit Table</u>, credit levels equal to 8% of the federal credit and the incomes at which these credits would be granted are provided in the table below. It is important to note that the maximum credit levels, the maximum credit incomes, and the phase-out incomes under the federal program are inflation-adjusted annually. Thus, the total annual cost of credits based on the federal program will likely be subject to an annual trend upward.

	No children	**1 child**	**2 or more children**
Minimum Credit Income	$1	$1	$1
8% of Federal Credit with Minimum Income	Less than $1	Less than $1	Less than $1
Income Range for Maximum Federal Credit	$4,750 - $5,949	$7,100 - $13,099	$10,000 - $13,099
8% of Maximum Federal Credit	$29	$194	$321
Income Range of Federal Credit Phase-out	$5,950 - $10,709	$13,100- $28,280	$13,100 - $32,120
8% of Federal Credit at Maximum Income	Less than $1	Less than $1	Less than $1

Based on the information in the table, a taxpayer with 2 children would: (1) receive a state credit of less than $1 with earned income of $1; (2) receive the maximum state credit of about $321 with earned income of $10,000 to $13,099; (3) receive a state credit less than $321 with earned income in the phase-out range; (4) receive a credit of less than $1 with earned income of $32,120; and (5) receive no credit if earned income exceeds $32,120.

Federal income tax data for tax year 1999 indicates that the federal credit was claimed on 356,503 income tax returns filed by Indiana residents. These credits totaled $556.6 M. Assuming 3.5% annual growth in the credit total, the estimated federal credits claimed by Indiana residents could potentially total $661.1 M in tax year 2004 and $684.2 M in tax year 2005.This growth rate is equal to the highest rate observed during recent years when average annual growth was about 1.8%. At 8% of the federal credit, the EITC would total approximately $52.9 M in tax year 2004 and $54.7 M in tax year 2005. Data from 1999 income tax records indicates that approximately 105,000 taxpayers were eligible to claim the EITC under current law. The credit amount available to these taxpayers is estimated to total $17.5 M. Thus, the change made by the bill is estimated to increase the annual cost of the EITC by approximately $35.4 M in tax year 2004 and $37.2 M in tax year 2005. Based on adjustments to withholdings, the estimated additional revenue loss in FY 2004 would be approximately $14.8 M. The full-year additional revenue loss is estimated to total $36.2 M in FY 2005. The FY 2004 total assumes that the change to the earned income tax credit will impact monthly withholding during the second half of the fiscal year.

Investment Tax Credit for New Personal Property: This provision creates an income tax credit available for owners of new business personal property. The property would have to be a newly purchased depreciable asset, be used in the production of income, and have a useful life of at least three years. The income tax credit would equal 15% of the net property tax paid on the property in its first taxable year and 10% of the net property tax paid on the property in its second taxable year.

The income tax credit may be taken against the taxpayer's liability under the Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. If the amount of the credit exceeds the taxpayer's liability, the taxpayer would be entitled to a refund. The Investment Tax Credit would reduce state revenues.

The credit would first be claimed for tax years beginning 2004. Adjusting for estimated quarterly payments, revenue collections would be impacted beginning in FY 2004 with the full cost of the credit beginning in FY 2005. The cost of the credit is estimated in the following table.

Investment Tax Credit State Revenue Reduction Estimate			
Tax Year	**Credit Amount**	**Fiscal Year**	**Credit Amount**
2004	$ 56.2 M	FY 2004	$ 28.1 M
2005	59.8 M	FY 2005	58.0 M

The Investment Tax Credit would not be available for property on which the taxpayer received a Capital Investment Tax Credit (in Shelby County) or a Rerefined Lubrication Oil Facility Credit.

Sales & Use Tax: This bill increases the Sales and Use Tax from 5% to 6% effective July 1, 2003. The bill also makes changes in the manner in which Sales and Use Tax revenue is distributed. The bill changes the distribution of the revenue so that revenue generated as a result of the tax increase is deposited into the state General Fund.

The increase will generate approximately $778.3 M in FY 2004 and $867.5 M in FY 2005 in increased Sales Tax Revenue. This estimate assumes that the Sales Tax revenue will grow 2.6% over FY 2003. (This is the same rate forecast for FY 2002 by the Revenue Technical Committee on November 14, 2001.) The estimate for FY 2004 assumes increased Sales Tax revenue from only 11 of the 12 months in which the increase is in effect during FY 2003 because of the timing of remittance and posting of Sales Tax revenue. The bill also changes the distribution of Sales Tax revenue. Under current law, Sales and Use Taxes are currently deposited in the state General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Fund (0.04%). This bill will changes the distribution beginning July 1, 2002 so that 80% is distributed to the state General Fund and 20% is distributed to the Property Tax Replacement Fund (PTRF). This change in the distribution will increase the distributions to the General Fund and the PTRF by $39.1 M in FY 2004. (This amount is included in the $778.3M estimate shown above.)

R & D Equipment Sales Tax Exemption: This bill exempts certain expenditures made on research and development (R&D) equipment from the state Sales and Use Tax during FY 2004 and FY 2005. This exemption is estimated to reduce Sales Tax revenue by $44.1 M in FY 2004, and by approximately $49.3 M in FY 2005.

Methodology: The estimate above is based on data obtained from the National Science Foundation (NSF) that provide the total value of industrial research and development performed in Indiana. Based on 1998 data, adjusted for inflation, it was estimated that in FY 2004, Indiana firms will expend approximately $3,156 M on R&D. The share of the estimated total expenditures subject to the Sales Tax was then estimated using NSF data on the percentage of R&D expenditures used for equipment. Based on these data, it was estimated that approximately 17% to 34% of Indiana R&D expenditures made would be subject to the state's Sales Tax.

The reduction in revenue shown above includes the loss of potential revenue the state would receive from sales of R & D equipment with a Sales Tax rate of 6%.

New Funds: The bill also establishes the Tax Relief Fund and the Tuition Support Stabilization Fund. The Tax Relief Fund is established to provide a source of money to maintain the inventory tax replacement and homestead distributions and to meet the state's obligations for welfare, trial courts, and police and firefighter pension relief when economic conditions result in lower General Fund revenue collections. The Tuition Support Stabilization Fund is to provide a source of funds to maintain state tuition support payments under similar conditions. These funds are to be administered by the state Treasurer. Interest that accrues to these funds will remain in the funds. Money in the funds at the end of the fiscal year do not revert to the General Fund. The Budget Director shall determine the unused 21st Century Tax Plan balance to be transferred into these funds. Fifty percent of the balance shall be transferred into each fund.

Based on the above estimates, it is anticipated that approximately $414.2 M could be transferred to these funds (or $207.1 M each) at the end of FY 2004. Approximately $181.7 M (or $90.9 M each) could be transferred at the end of FY 2005.

Personal Property Tax Credit: Although this bill does not make any direct changes to the $37,500 AV credit for personal property (PPTRC), the cost of the PPTRC will be affected by the levy reductions and the delay of reassessment found elsewhere in this bill. The cost of the credit under current law is estimated at $96.0 M in FY 2004 and $97.9 M in FY 2005. The total cost of this credit, taking the levy and reassessment changes in this bill into consideration, is estimated at $123.5 M in FY 2004 and $88.5 M in FY 2005. The estimated change in state revenues is ($27.5 M) in FY 2004 and $9.4 M in FY 2005.

Assessment of Rental Housing: The State levies a small tax rate for State Fair and State Forestry. A $50 M reduction in the assessed value base will reduce the property tax revenue for these two funds by about $1,650 annually.

Rainy Day Fund Loan: This bill permits qualified taxing units in Porter County facing budgetary shortfalls because of a taxpayer's bankruptcy to apply for a loan from the Counter-Cyclical Revenue and Economic Stabilization Fund (Rainy Day Fund). The bill limits the total amount of the loans to $10.3 M. Interest may be charged on the loans at a rate not to exceed the 12 month rate of increase in the Consumer Price Index. Any interest rate would be set by the State Board of Finance. The bill requires that the loans be repaid in five years. The balance of the Rainy Day Fund as of June 30, 2001, was $526 M and is estimated to be $526 M at the end of FY 2002.

The Rainy Day Fund currently earns interest at the six-month U.S. Treasury Bill interest rate (1.88%). The CPI rate of annual increase has been between 2% and 3% for several years. The fund would not suffer a loss of interest income on the outstanding loan balance if the Finance Board sets the interest rate comparable to the rate that the fund currently earns.

Budget Deficit Reduction Provisions:

Riverboat Admission Tax Increase: The bill increases the Riverboat Admission Tax from $3 to $4 effective July 1, 2002. The bill requires the revenue from the additional $1 Admission Tax to be distributed to the state General Fund. The additional $1 Admission Tax is estimated to produce approximately $41.1 M to $42.2 M in FY 2003; $41.5 M to $43.5 M in FY 2004; and $42.0 M to $44.8 M in FY 2005.

Under current statute, a $3 Admission Tax is imposed on the owner of each riverboat casino in Indiana. The tax must be paid for each person admitted to a riverboat gaming excursion, whether paid or unpaid. Approximately 39.5 M riverboat admissions resulted in just over $118.6 M in revenue from the current $3 Admission Tax during FY 2001. During the 12-month period November 2000 to October 2001, however, admissions to the riverboats totaled approximately 40.4 M. Assuming a growth rate ranging from 1.1% to 3% annually, admissions to the riverboats are estimated to total approximately 41.1 M to 42.2 M in FY 2003. Totals for subsequent fiscal years assume the same annual rates of growth over the FY 2003 estimated totals. These growth rates are based on recent trends in admissions relative to casino space and in overall riverboat admissions.

Riverboat Wagering Tax Increase: The bill increases the Riverboat Wagering Tax to 22.5% on the annual adjusted gross wagering receipts (AGR) generated by a riverboat casino in excess $25 M. Currently, the Wagering Tax is 20% on the total annual AGR generated by a riverboat casino. Under the bill, the 20% tax rate would continue to apply to the first $25 M in annual AGR a riverboat casino generates. The bill requires the incremental revenue due to the 22.5% tax rate to be distributed to the state General Fund. This is estimated to total approximately $40.0 M in FY 2003. This estimate is derived using the State Budget Agency’s FY 2003 forecast (as of January 22, 2001) of Wagering Tax revenue by riverboat. The forecast total for FY 2003 is $370.16 M. Assuming 3.5% annual growth in AGR based on recent trends, the incremental revenue from the new tax is estimated to total approximately $41.4 M in FY 2004 and $42.9 M FY 2005.

Transfer of Surplus Lottery and Gaming Revenue: The bill requires an annual transfer of $100 M from the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund (BIF) to the state General Fund beginning in FY 2004. Based on the current State Budget Agency forecast for the LGSA (as specified in the table below), sufficient revenue is expected to be available for a $100 M transfer in FY 2004. The State Budget Agency forecast indicates that approximately $169.0 M will remain in the LGSA after the statutorily determined transfer to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. Under current statute, this amount would be transferred to the State and Local Capital Projects Account (SLCPA). Thus, assuming surplus Lottery and Gaming revenue is the same in FY 2004, sufficient revenue would be available for the $100 M transfer after the required MVETRA transfer. The table below summarizes surplus Lottery and Gaming transfers (actual and projected) according to current law in FY 2001 to FY 2003, and under the bill in FY 2004. The state General Fund transfer in FY 2004 would leave an estimated $69.0 M for transfer to the State and Local Capital Projects Account (SLCPA).

Surplus Lottery and Gaming Revenue & Distributions (Millions)*

Revenues & Distributions	FY 2001 (Actual)	FY 2002 (Projected)	FY 2003 (Projected)	FY 2004 (Projected)
Surplus Lottery Revenue	$160.0	$155.0	$155.0	$155.0
TRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
PRF Transfer	($30.0)	($30.0)	($30.0)	($30.0)
Surplus Lottery Revenue to the LGSA	$100.0	$95.0	$95.0	$95.0
Surplus Gaming Revenue to the LGSA	$268.2	$285.2	$285.2	$285.2
Interest	$26.9	$25.0	$25.0	$25.0
Total Revenue to LGSA	$395.1	$405.2	$405.2	$405.2
MVETRA Transfer	($234.7)	($236.2)	($236.2)	($236.2)
State General Fund Transfer	$0	$0	$0	($100.0)
SLCPA Transfer	($160.4)	($169.0)	($169.0)	($69.0)

*Updated as of 10/25/01.

Under current statute, surplus Lottery revenue (money remaining in the Administrative Trust Fund after payment of prizes and operating expenses of the Lottery) is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, surplus Lottery revenue is then distributed to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund (BIF). The LGSA also receives surplus gaming revenues (revenues from the Riverboat Wagering Tax, the Pari-mutuel Wagering Tax, the Pari-mutuel Satellite Facility Tax, the Charity Gaming Excise Tax, and the Charity Gaming License Fee). A statutorily determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. (Beginning with FY 2002 and continuing each year thereafter, this amount is equal to approximately $236.2 M.) The remaining money in the LGSA is then transferred to the State and Local Capital Projects Account (SLCPA). The balance in the Build Indiana Fund as of June 30, 2001, was $347.3 M. After statutorily required transfers and appropriations under HEA 1001-2001, the balance in BIF as of June 30, 2002, is expected to total $154.7 M; and as of June 30, 2003, is expected to total $8.0 M.

Tobacco Funds: This bill eliminates the requirement that a portion of the tobacco settlement funds received each year be retained for investment. Beginning July 1, 2003, the bill would require that the first $90 M received in payments be transferred to a special health care account within the General Fund during each state fiscal year.

The bill also requires the transfer of $50 M from the investment trust portion of the Tobacco Master Settlement Agreement Fund to a special health care account within the State General Fund. This transfer is required to occur before May 1, 2002. The investment trust portion of the Tobacco Master Settlement Agreement Fund had $123.9 M in distributions from the tobacco companies and $9.6 M in interest earnings as of the end of FY 2001. The tobacco companies will contribute an estimated additional $59.7 M by May of 2002. The required transfer will leave an estimated $133.6 M plus interest earnings remaining in the investment portion of the Fund.

The bill also requires a second transfer of $90 M from the investment trust portion of the Tobacco Master Settlement Agreement Fund to a special health care account within the State General Fund. This transfer is required to occur during FY 2003. The tobacco companies will contribute an estimated additional $60.3 M by May of 2003. The required transfer will leave an estimated $103.9 M plus interest earnings remaining in the investment portion of the Fund at the end of FY 2003.

Tobacco Farmers Provisions: The bill appropriates money from the General Fund to the Value Added Research Fund, the Rural Development Administration Fund, and the Indiana Rural Development Council. (See the table below.)

General Fund Impact	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Value Added Research Fund	$1.0 M	$1.0 M	$1.0 M	$1.0 M	$1.0 M	$1.0 M	$1.0 M
Rural Develop. Admin. Fund	2.5 M	2.5 M	2.5 M	2.5 M	2.5 M	2.5 M	2.5 M
Rural Development Council	1.2 M	1.2 M	1.2 M	1.2 M	1.2 M	1.2 M	1.2 M
General Fund Appropriations	$4.7 M	$4.7 M	$4.7 M	$4.7 M	$4.7 M	$4.7 M	$4.7 M

The Tobacco Farmers and Rural Community Trust Fund is renamed the Tobacco Farmers Fund. The bill requires certain transfers of revenue from the Tobacco Master Settlement Agreement fund to the Tobacco Farmers Fund until January 1, 2010. (See the table below.) The estimated payments to the Tobacco Master Settlement Fund will be sufficient to make the required transfers to the Tobacco Farmers Fund as well as the annually required transfer of $90 M discussed above.

Tobacco Master Settlement Fund Impact	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Phase II Supplement ($23.6M)	$4.72 M	$4.72 M	$4.72 M	$4.72 M	$4.72 M		
Phase II Market Share Adjust.	0.63 M	0.64 M	0.65 M	0.66 M	0.67 M	0.68 M	0.69 M
Tobacco Master Settlement	$5.35 M	$5.36 M	$5.37 M	$5.38 M	$5.39 M	$0.68 M	$0.69 M

Suspension of Homeowner's Property Tax Deduction: The bill suspends the homeowner's property tax deduction for tax years 2002 and 2003. The revenue gain from this temporary change could potentially range from $48.0 M to $64.0 M in FY 2003 and $57.4 M to $67.7 M in FY 2004.

Under current statute, a taxpayer may deduct property taxes paid during the taxable year in Indiana on his or her principal place of residence. The deduction is limited to the lesser of the property taxes paid or $2,500.

In 1999, about 1.16 M taxpayers claimed this deduction resulting in a revenue loss of approximately $39.9 M. This was the first year the deduction was in effect. The low range estimates presented above are based on the actual deduction total from 1999. This total is inflated based on recent annual growth rates in residential property taxes equal to 4.95% and also reflects a 1.3% annual growth rate in the number of taxpayers claiming the deduction. This is equal to long run growth in the number of taxpayers claiming the renter's deduction. The high range estimates reflect the maximum deduction amount that could potentially be claimed by taxpayers. These totals are based on the statewide residential property tax levy adjusted to reflect annual growth in the levy.

Property Tax Add Back: The bill re-institutes the property tax add back for tax years 2002 and 2003. The revenue gain from this temporary change could potentially range from $84.7 M to $98.7 M in FY 2003 and $88.5 M to $103.8 M in FY 2004.

Prior to tax year 1999, business property taxes deducted for federal tax purposes were added back on Corporate and Individual Income Tax returns. Property taxes deducted by financial institutions for federal tax purposes also were added back on Financial Institutions Tax returns. The low range amounts presented above reflect prior simulation estimates of the property tax add back on Corporate and Financial Institutions returns. The low range also incorporates an estimate of the property tax add back on Individual Income Tax returns based on 1998 and 1999 tax year data. The individual return data is inflated by 4.58% per year to reflect recent annual growth rates in business property taxes. The high range amounts reflect prior estimates based on corporate and financial institutions simulations and individual return data. The high range amounts are currently utilized for purposes of adjusting the Income Tax revenue forecasts.

Cigarette Taxes: This bill increases the Cigarette Tax on packs of 20 cigarettes to $0.55 from the current rate of $0.155. Based on data from the November 14, 2001, state revenue forecast, the proposed Cigarette Tax rate increase will generate an additional $24.5 M in FY 2002, $294.9 M in FY 2003 and $296.2 M in FY 2004. Although the effective date of this proposal is May 1, 2002, cigarette taxes at the $0.55 rate would not be remitted until June 2002. Therefore, there will be one month of remittance in FY 2002 of $24.5 M. The bill adjusts the statutory percentage distribution of cigarette tax revenue so that the increased revenue is distributed to the state General Fund. Cigarette Tax distributions to the Cigarette Tax Fund, the Mental Health Centers Fund, and the Pension Relief Fund were also adjusted so that these funds retain their current level of funding.

Sales Tax Distributions: The bill changes the distribution of Sales Tax revenue beginning in FY 2003. Under current law, Sales and Use Taxes are deposited in the state General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Fund (0.04%). This bill will change the distribution so that 80% is distributed to the state General Fund and 20% is distributed to the Property Tax Replacement Fund (PTRF). This change will increase the distributions to the General Fund and the PTRF by an estimated $38.1M in FY 2003.

Premium Tax: This bill delays the current reduction in the Premium Tax charged on certain insurance policies written in Indiana. The delay in the reduction is estimated to increase state General Fund Revenue by $3.9 M in FY 2003 and $11.7 M in FY 2004. The table below shows the Premium Tax rate in place under current law, and with the changes proposed in this bill.

Calendar Year	Current Rate	Proposed Rate
2003	1.7 %	1.8 %
2004	1.5 %	1.8 %
2005	1.3 %	1.7 %
2006	1.3 %	1.5 %
2007 and after	1.3 %	1.3 %

Fee Changes

Property Tax Representative Licensing Fee: Under current law, the Department of Local Government Finance (DLGF) must adopt rules that govern the practice of tax representatives before the Indiana Board and the DLGF. As part of those rules, this bill would require the DLGF to establish a licensing program for tax representatives. A license applicant or license holder would be required to pay a $50 annual fee which would be deposited into the state General Fund. The license and the associated fee would not apply to the property owner, full-time employees of the property owner, representatives of local taxing units, CPAs, or attorneys.

According to the State Tax Board, there are currently between 500 and 1,000 tax representatives in the state who would be subject to the license program. The $50 annual license fee imposed by this provision would generate approximately $25,000 to $50,000 annually beginning in FY 2003.

Non-Governmental Employee Continuing Education Fee: Under current law, the DLGF must conduct a minimum of four continuing education sessions each year for the benefit of local assessing officials. This bill would require an individual who is not a local assessing official or their employee or an employee of the DLGF who attends a session to pay a fee. The fee would equal $50 for a half-day session or $100 for a full day. According to the State Tax Board, an average of 57 non-government individuals attend each of the four full-day sessions annually. Assuming continued attendance, the fee imposed under this provision would generate about $23,000 per year from these individuals beginning in FY 2003.

IDEM Fees: This bill allows the Air Pollution Control Board, Water Pollution Control Board, and Solid Waste Management Board to establish annual fees for active water system permits, municipal separate storm sewer system permits, and National Pollutant Discharge Elimination System (NPDES) general permits effective January 1, 2003. Fees for such permits and any delinquency charges for nonpayment are payable to IDEM for deposit in the Environmental Management Permit Operation Fund. The bill increases the annual permit fees for various NPDES permits. It also increases the following solid waste fees: (1) application fees for solid waste permits; (2) annual operation fees; and (3) disposal fees. The bill also increases the following hazardous waste fees: (1) application fees for hazardous waste permits, and (2) annual operation fees.

The amendment reduces the wastewater, solid waste, and hazardous waste fee increase from 30% to 20%. The amendment also directs 91.666% of the fee revenue for fees generated under IC 13-18-20 (wastewater), IC 13-20-21 (solid waste), and IC 13-22-12 (hazardous waste) to be deposited into the Environmental Management Permit Operation Fund and 8.334% to be deposited in the State General Fund.

The wastewater, solid waste, and hazardous waste permit application and annual operation fee revenue estimates based on the amendment are as follows:

* Wastewater: $0.367 M annually to IDEM, and $0.367 M to the General Fund.
* Solid Waste: $0.3 M annually to IDEM, and $0.3 M annually to the General Fund.

* Hazardous Waste: $0.167 M annually to IDEM, and $0.167 M to the General Fund.

The above estimates are based on 20% increase to the FY 2000 fee collections in those programs. The bill increases the amount to be collected by approximately $834,000. In addition, approximately $834,000 will now go the State General Fund as a result of the amendment which would deposit 8.334% into the State General Fund.

Another provision in the amendment directs the fee revenue generated under IC 13-16-1-8 (new fees for public water systems, stormwater permits, and NPDES general permits) to be deposited as follows: 50% in the Environmental Management Permit Operation Fund and 50% in the State General Fund.

The fee schedule for public water supplies authorized by HB 1004 can generate no more than $2 million annually. Of this amount, under the amendment 50% would go to the State General Fund. The net impact is a reduction of approximately $1 M for IDEM.

The new stormwater fee schedule authorized by HB 1004 will generate no more than $0.5 M annually. Of this amount 50% will go to the State General Fund. The net impact is a reduction of approximately $0.250 M for IDEM.

The approximate overall impact of the amendment on wastewater, solid waste, hazardous waste, public water supply and stormwater permit fees is a reduction of $2.950 M in fee revenue for IDEM.

The amendment adds several provisions to allow money in the Underground Petroleum Storage Tank Excess Liability Trust Fund (ELTF) to be used to pay the expenses incurred in operating and administering the motor vehicle inspection and maintenance program. The expenses are currently paid from the General Fund, so there will not be a fiscal impact upon IDEM. However, it does help the State's General fund as it would provide $7.534 M in reversions to the State General Fund.

State Police Fees: (A) For supplying copies of accident reports, the State Police Department currently charges $3 for each report. The bill provides that the Department may, by rule, charge a fee in an amount greater than $3 for each report. This fee is deposited in the “accident report account.” The fee generated about $108,000 under the current fee structure in FY 2001. (B) Under IC 20-9.1-4-5, the State Police Department is required to inspect all special purpose and public and private school buses that transport its pupils. The bill authorizes the State Police Department to impose fees for those inspections. In FY 2000, the Department completed 13,947 school bus inspections, 2,121 random or spot inspections, and 647 twelve-year-old or older school bus inspections. In addition, the Department made 450 to 500 special purpose bus inspections. This bill authorizes the State Police Department to impose fees for these inspections. (C) Current statute also provides for the collection of a $3 fee to defray the cost of processing a request for inspection of a limited criminal history and $7 to defray the cost of processing a request for release of a limited criminal history. This bill allows the State Police to increase the level of fees by rule. This fee generated about $1.753 M in FY 2001 under the current fee structure.

The additional revenues from these provisions will depend upon administrative action.

Headquarters Relocation Tax Credit: Taxpayers relocating a corporate headquarters could qualify for the Headquarters Relocation Tax Credit. The credit would reduce state tax revenues by an indeterminable amount beginning in FY 2004.

Under the bill, a taxpayer may take a credit equal to 50% of the taxpayer's relocation costs in a given tax year. In order to receive the credit, the taxpayer must relocate the headquarters of a corporation from a location outside of Indiana to Indiana, have at least 250 employees, and have had annual worldwide revenues of at least $25 B in the previous year. The tax credit is effective for tax years beginning January 1, 2004.

The credit would be applicable to the taxpayer's state tax liability for any of the following taxes: State Gross Retail and Use Tax, Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Financial Institutions Tax, and the Insurance Premiums Tax. These taxes are deposited in the General Fund and the Property Tax Replacement Fund.

The credit would not be allowed to reduce a qualifying taxpayer's state tax liability below the amount of the taxpayer's state tax liability in the tax year immediately preceding the tax year that the taxpayer first incurred relocation costs.

Pass-through entities could qualify for the credit. If a pass-through entity does not have state tax liability as listed above, a shareholder, partner, or member of the pass-through entity is entitled to the credit equal to the percentage of the pass-through entity's distributive income multiplied by the credit determined for the entity in a taxable year.

The amount of credit awarded to a qualifying taxpayer would be divided equally over ten years beginning in the year the credit was granted. If the amount of credit exceeds a taxpayer's state tax liability for a tax year, the taxpayer may carry over excess credit to future tax years. The amount of the credit carryover from a taxable year would be reduced to the extent that the carryover is used by the taxpayer to obtain credit in future tax years.

The revenue loss from this credit would be partially offset by increased Individual Adjusted Gross Income and Sales Tax revenue generated from the new employment and business activities of the corporate headquarters.

Certified Technology Parks: The bill also allows a local redevelopment commission operating a certified technology park to capture up to $5 M annually in incremental revenue from the state income and sales taxes generated in the park (income tax revenue paid by employees working in the park and sales tax revenue paid by businesses in the park, in excess of the base amounts for each tax calculated before the establishment of the park).

<u>Explanation of Local Expenditures:</u>

Budget Deficit Reduction Provisions:

Certified Technology Parks: After entering into the technology park agreement with the IDOC, a redevelopment commission must submit to the Department of State Revenue (DOR) certified copies of the IDOC designation of the technology park and the technology park agreement entered into with IDOC, as well as a complete list of the employers in the park and information on streets in the park. The DOR is then required to calculate the base amounts for income and sales taxes generated in the technology park.

If a redevelopment commission designates a certified technology park as a TIF area, it must publish notice of this action and of the public hearing on the subject and accept written remonstrances on this action. The bill also requires that the commission file information regarding the technology park with each taxing unit that levies property taxes in the park. If, after holding a public hearing, the redevelopment commission designates the TIF area, a person who submitted a written remonstrance may appeal the commission's decision to the circuit or superior court of the county.

Explanation of Local Revenues:

Tax Restructuring Provisions:

School General Fund Property Tax Levies: The reductions in property taxes and Motor Vehicle Excise Tax and FIT revenue are offset by increased state tuition support funding.

Reassessment Delay: Under current law, the impending reassessment of real property will take effect with property taxes paid in CY 2003. This bill would delay the effective date of this reassessment for one year. In addition, the bill directs the Department of Local Government Finance to establish a method to make adjustments to the assessments of personal property so that the changes in personal property valuation under the newly adopted personal property assessment rule are delayed by one year as well.

Utility Assessments: Under this proposal, utilities that realize a property tax reduction in any year after CY 2003 (aside from tax reductions due to the levy reductions in this bill) would be required to pay a special assessment that is equal to the amount of the tax reduction. The utility's 2003 property tax liability, as adjusted for levy reductions, would be used as the base for determining the special assessment in all years after CY 2003. The special assessment would be treated as property tax for the purpose of setting levies and tax rates. In effect, the special assessment would shift part of the property tax burden from all other property classes to utility taxpayers.

Shelter Allowance / Standard Deduction: Under the newly adopted real property assessment rules, owner-occupied housing is eligible for a shelter allowance. Shelter allowance ranges by county from $16,000 to $22,700 with the average at about $19,000. This bill would prohibit use of a shelter allowance and replace it by increasing the Standard Deduction from $6,000 AV to $25,000 AV. Overall, there should not be any real impact due to this change on a statewide basis, although there could be some slight tax shifting within some counties.

Welfare Levy Reduction: County revenues and expenditures would both be reduced by the amount listed under the State Expenditure section for state welfare takeover. Overall, the expenditure change and the revenue change result in no net changes to counties.

Homestead Credit Increase: The increase in Homestead Credits would not affect local revenues. Homeowners' property tax bills would be reduced by the additional credits, but the state would reimburse local taxing units for the lost revenue.

Inventory Tax Credit: This provision would not affect local revenues. Inventory owners' property tax bills would be reduced by the amount of net property tax that they pay on business inventory, but the state would reimburse local taxing units for the lost revenue.

Property Tax Replacement Credit Reduction: Total local revenues would not be affected by this provision. Taxpayers would pay the portion of PTRC that is being eliminated under this proposal.

Effects on Tax Increment Financing: Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the surrounding taxing district's tax rate. In CY 2001, TIF revenues totaled $151.6 M, statewide. As a consequence of reducing the welfare and school general fund levies and tax rates, TIF proceeds would be reduced. If these tax rates had been eliminated in CY 2001, TIF districts, statewide, would have lost about $21.3 M. However, this bill permits the TIF district's governing body to impose a special assessment on the property in the TIF area in order to meet the district's obligations if the change in assessment rules results in a revenue amount too small to meet obligations. The special assessment would be limited to the lesser of the amount still needed to meet obligations or the proceeds from a 10% tax rate increase. In addition, the DLGF may adjust the base AV in the allocation area, reallocate PTRC in the TIF area to pay obligations, and order distributions from the state Tax Relief Fund established by this bill.

Effects on Local Option Income Tax Distributions: Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded Homestead Credit up to an additional 8%. COIT revenue that is not used to fund the local Homestead Credit is distributed to civil taxing units (counties, townships, cities, towns, libraries, and special taxing units). A reduction in the property tax levy would reduce the cost of providing the local Homestead Credit, thereby directing more COIT revenue to civil taxing units.

Under current law, counties that impose the County Adjusted Gross Income Tax (CAGIT) must allocate local Property Tax Replacement Credits to civil taxing units and to school corporations. The amount of property tax relief is dependent on the CAGIT tax rate and on the total amount of CAGIT proceeds in the county. The total amount of property tax levies does not affect the amount of CAGIT proceeds used for property tax relief. CAGIT revenue that is not used to reduce the property tax levies that are being eliminated or reduced under this bill would be used to reduce other property tax levies in the county.

COIT and CAGIT certified shares are the amount of local option tax proceeds that are available for distribution to civil taxing units after local Homestead Credits and local Property Tax Replacement Credits, respectively, are paid. Certified shares are distributed based on a civil taxing unit’s proportionate share of the total civil unit property tax levy. The bill adjusts the basis for the distribution to include the amount of the levies that are being reduced or eliminated. This calculation ensures that the bill does not alter the proportion of certified shares that civil units in adopting counties will receive.

Assessment of Rental Housing: Under this proposal, assessing officials would be directed to consider all relevant information, including rents, construction cost, comparable properties, use appraisals, restrictions, and other generally accepted appraisal principles, in the assessment of rental housing. The bill would limit assessors to the use of the capitalization of income method on low income rental housing and would prohibit consideration of tax credits or government subsidies in determining the value this property.

Most of these requirements and limitations may have little impact as assessors are already able to assess commercial property using these methods under the newly adopted real property assessment rule. However, the restrictions on the method of assessment and on the income considered in the assessment of low income rental housing would reduce assessed values statewide by an estimated $50 M.

The AV reduction would cause a shift of the property tax burden from the owners of low income rental housing to all taxpayers in the form of an increased tax rate. The statewide total shift is estimated at $900,000.

Apartment Complex Property Tax Deduction: Under this proposal, the owner of an apartment complex would be eligible for a single assessed value deduction of $25,000 per apartment complex. The AV reduction would cause a shift of the property tax burden from apartment complex owners to all taxpayers in the form of an increased tax rate. The amount of the shift is not currently known.

Abatements: This provision would require the DLGF to recalculate the amount of abatement that a taxpayer is entitled to for equipment installed prior to March 1, 2001. This adjustment would ensure that the deduction bears the same proportion to assessed value under the new personal property assessment rule as it did under the old rules.

Rainy Day Fund Loan: This provision would allow Porter County taxing units to apply for a loan before January 1, 2003, with repayment within five years. In order for the taxing unit to qualify, the bill would require an expectation of *continued* significant revenue shortfalls due to a steel manufacturer's default on one of its tax payments as result of a bankruptcy. The amount of an individual taxing unit's loan would be limited to the amount of the unit's share of the tax payment that was defaulted in November 2001. The total of all loans may not exceed $10.3 M. The estimated maximum loan amounts are:

Estimated Maximum Loans Due to Taxpayer Default Under Proposal	
Unit Name	**Maximum Loan**
Porter County	1,951,200
Portage Township	11,300
Westchester Township	22,500
Portage Civil City	122,300
Chesterton Civil Town	900
Burns Harbor Civil Town	603,500
Dune Acres Civil Town	5,200
Porter Civil Town	700
Duneland School Corporation	6,876,800
Portage Township School Corp	189,700
Westchester Public Library	395,100
Porter County Public Library	12,100
Porter Co Airport Authority	40,000
Total	**10,231,300**

The money used to repay the loans must come from a fund that is subject to the unit's maximum permissible levy. The loan obligation may not be used as a reason to petition for an excessive property tax levy. Furthermore, payments of the delinquent tax, if any, are considered to be property taxes received and are subject to the 102% excess levy calculations. These stipulations mean that a unit cannot use a Debt Service Fund levy or exceed its maximum levy to make loan payments. It also means that if the bankrupt taxpayer makes any payments of delinquent tax and those payments cause total property tax receipts to surpass the certified tax levy by 2%, then collections over 102% of the levy would be deposited into the Levy Excess Fund which is used to offset the following year's tax levy. Additionally, the bill requires that if loan proceeds plus any tax payments from the subject taxpayer exceed the taxpayer's liability, then the excess would be deposited into the taxing units' Levy Excess Funds. The units may have to pay interest to the state that does not exceed the rate of increase in the Consumer Price Index.

Increases in Renter's Deduction: The bill increases the renter's deduction beginning in tax year 2004.

Because these changes will decrease Indiana taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result of the bill, experience an indeterminable decrease in revenue from these taxes.

Budget Deficit Reduction Provisions:

Homeowner's Property Tax Deduction/Property Tax Add back: The bill suspends the income tax deduction for property taxes paid by homeowners and re-institutes the property tax add back for tax years 2002 and 2003. Because these temporary changes will increase Indiana taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable increase in revenue from these taxes.

School Funding: The bill allows local schools to transfer funds from their capital projects fund, transportation fund, school bus replacement fund, or transportation fund to their general fund during the last six months of CY 2002 and the first six months of CY 2003 to offset the reduction in state tuition support revenue. The amount of the transfer each year is the CY 2002 assessed valuation divided by 100 times the lesser of $0.0328 or ½ of the CY 2002 capital projects fund rate. The transfer would be about $57.7 M per calendar year. Schools may have problems funding their CY 2002 and CY 2003 capital projects fund plans and would have to delay some of the projects in the 3-year capital projects fund plan.

See *Explanation of State Expenditures*, above, regarding use of Motor Vehicle Highway Account funds in the funding of the State Police.

Headquarters Relocation Tax Credit: If the corporate headquarters locate in a county with a local option income tax, there could be additional revenue generated. The location of a new business entity in the county could also increase the assessed valuation of property and subsequently reduce the property tax rates of other tax payers in the area.

Certified Technology Parks: The bill allows a local redevelopment commission to establish a certified technology park encompassing all or part of the territory under the commission's jurisdiction. The technology park must be certified by the Indiana Department of Commerce and must contain businesses undertaking high technology activities or a business incubator (for a more detailed discussion of certification and certification requirements see above under *Explanation of State Expenditures*). The bill allows a redevelopment commission operating a certified technology park to designate the park as a TIF district. This would allow the commission to capture incremental property tax revenue generated from taxable property in the park (revenue from assessed property valuation in excess of the base assessed value calculated before the establishment of the park). The bill also allows a redevelopment commission operating a technology park to capture up to $5 M annually in incremental income and sales tax revenue generated in the park (income tax revenue paid by employees working in the park and sales tax revenue paid by businesses in the park, in excess of the base amounts for each tax calculated before the establishment of the park). Incremental income tax revenue includes revenue from the state Adjusted Gross Income Tax and local option income taxes (CAGIT, COIT, and/or CEDIT).

The bill requires a redevelopment commission that establishes a technology park to also establish a Certified Technology Park Fund to receive incremental property, income, and sales tax revenues from the technology park. Money in the fund may be used for the development and operation of public facilities in the park (infrastructure, land, and other assets); costs incurred relating to debt instruments issued to finance the development of public facilities in the park; and payment of expenses incurred for public facilities in or serving the park. The bill prohibits any money in the Fund from being used to pay operating expenses of the redevelopment commission. The bill also authorizes a redevelopment commission to issue bonds with a maturity not exceeding 50 years for the purpose of providing public facilities for the certified technology park, or the cost of refunding or refinancing outstanding bonds.

The bill limits the combined amount of incremental income and sales tax revenue that a redevelopment commission can capture within a technology park to $5 M annually. The bill does not specify a capture limit for incremental property tax revenue. However, if the redevelopment commission determines that incremental property tax revenue in a year will exceed the amount necessary to pay the costs of the technology park, the excess incremental tax revenue may be allocated to local units. The bill permits the redevelopment commission to pay a property tax replacement credit against the property tax in the "tiffed" property. This credit would reduce the amount of TIF proceeds received by the commission.

State Agencies Affected: Auditor; Department of Education; Department of State Revenue; State Budget Agency; Public Employees' Retirement Fund (PERF) as administrators of the Pension Relief Fund and the 1977 Police Officers' and Firefighters' Pension and Disability Fund; Department of Local Government Finance (State Tax Board); Indiana Supreme Court, Division of State Court Administration; Treasurer.

Local Agencies Affected: School corporations; Local taxing units; Counties with a local option income tax; Local redevelopment commissions; TIF districts; County auditors.

Information Sources: Department of State Revenue; Department of Education; State Tax Board (Department of Local Government Finance), State Police, Department of Environmental Management; Revenue Technical Committee's November 14, 2001, Revenue Forecast; Property Tax Analysis, various years, Local Government Database- State Board of Tax Commissioners (Department of Local Government Finance); School Finance Database; Dan Bastin, Auditor of State's Office; National Science Foundation, *Survey of Industry Research and Development;* Statistical Abstract, 2000, U.S. Bureau of the Census.